SKAGEN Kon-Tiki

Status Report – March 2016

The art of common sense

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Highlights – March 2016

- SKAGEN Kon-Tiki* was up 8.3% in March, while the MSCI Emerging Markets index increased 8.0% measured in EUR. Year-to-date, the fund is down 1.6% versus a 0.9% gain for the EM index.

- Emerging markets outperformed developed markets by more than 6% in March. This was the best month for EM equities since October 2011, and also saw the largest outperformance versus DM since March 2011. Brazil (+26% in EUR) was the best performing market, reminding investors and pundits alike that expectation levels matter, especially in the short-term.

- Our top three performers in March were Samsung Electronics, State Bank of India and Banrisul. Early channel checks indicate that Samsung's new S7 flagship phone is well ahead of the previous generation, while sell side earnings estimates have crept up during the month. State Bank of India reported better results than feared, and rebounded from very weak January and February share price performance. On a similar note, Banrisul outperformed a sharply rebounding Brazilian stock market.

- Mahindra & Mahindra, Frontline and Kiatnakin were our three main detractors from absolute return during the month. With limited news flow on all three, stock price reactions were due more to the eternal vicissitudes of the market than to fundamental developments. Mahindra actually reported strong March sales figures on 1 April (we hope the timing of the report had no bearing on its content!). Our Thai bank, Kiatnakin, declined 7% in local currency (10% in NOK) after a strong rally over the past six months.

- We added one new position in March, Japanese company Toray Industries. We sold out of Archer and Aveng, as our investment theses failed to play out and we saw better opportunities elsewhere.

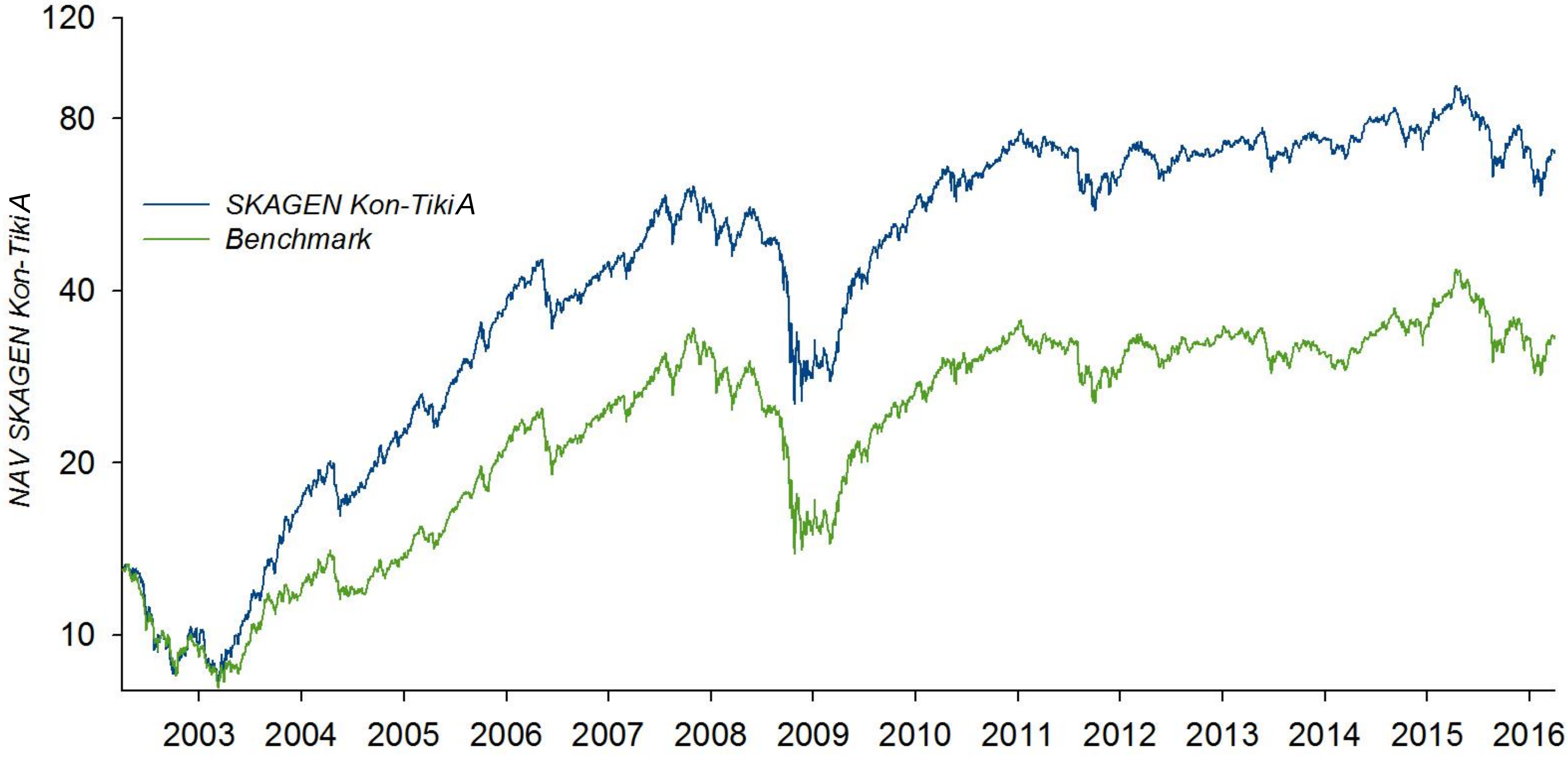
- Emerging markets continue to trade at a discount to developed markets, with a 2016e P/E of 11.9x and P/B of 1.4x for EM, compared with 16.2x and 2.1x for DM.

- The top 12 positions now represent almost 51% of the fund (from 45% at the beginning of 2015). In the same period we have reduced the number of positions in the fund from 95 to 64. The portfolio* remains attractively valued at a 2016e P/E of 8.5x and P/B of 1.0x. We now see 47% upside for our portfolio over a 2-year horizon.

** Portfolio valuation refers to top 35 positions. Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*

Results, as of 31 March 2016

EUR, net of fees



	March	QTD	2015	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Kon Tiki A	8,3%	-1,6%	-6,8%	-17,7%	-1,5%	-0,8%	5,3%	12,8%
MSCI EM Index	8,0%	0,9%	-5,2%	-17,1%	-0,6%	0,2%	3,7%	6,9%
Excess return	0,3%	-2,5%	-1,6%	-0,5%	-1,0%	-1,0%	1,6%	5,8%

Note: All returns beyond 12 months are annualised (geometric return)

** Inception date: 5 April 2002*

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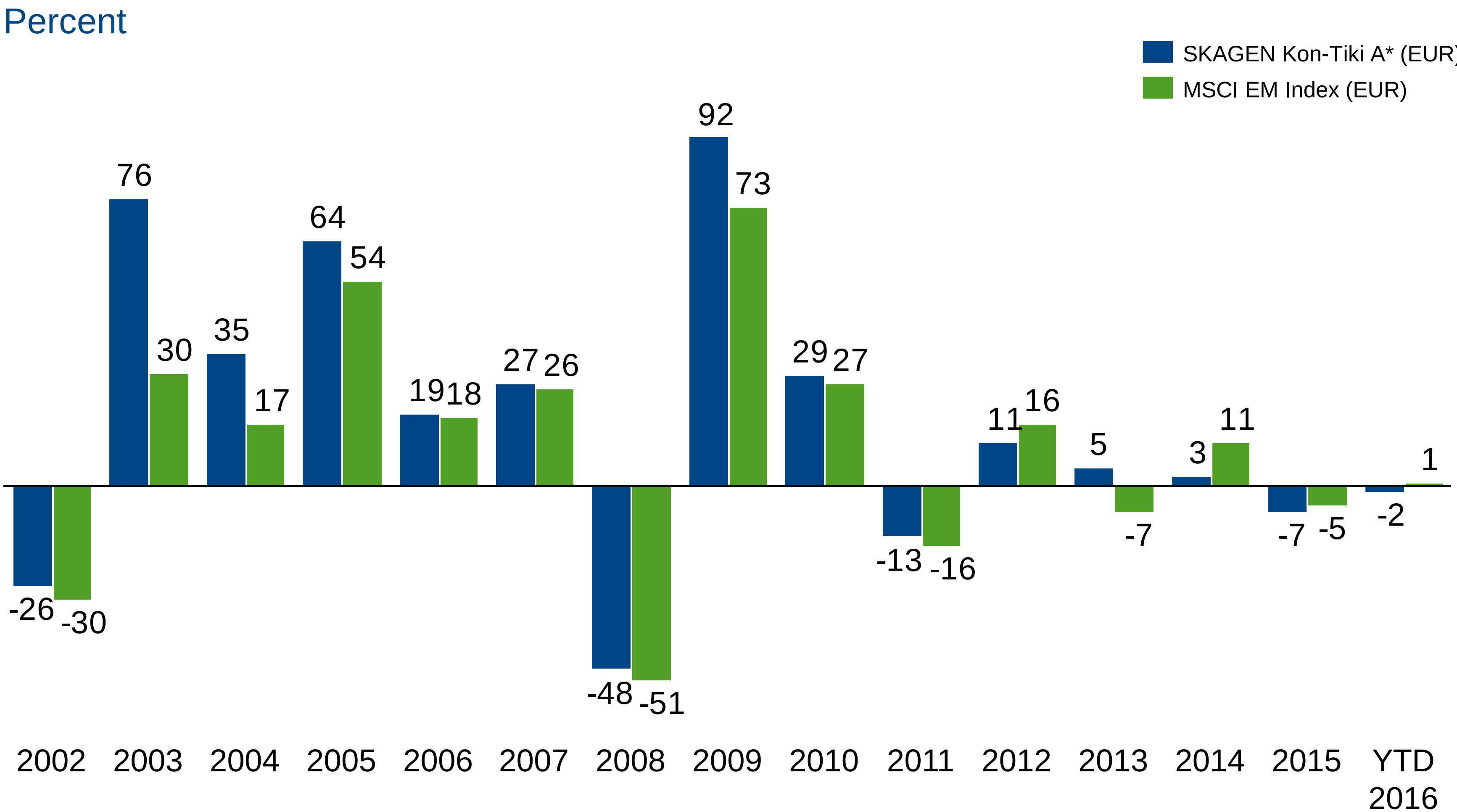
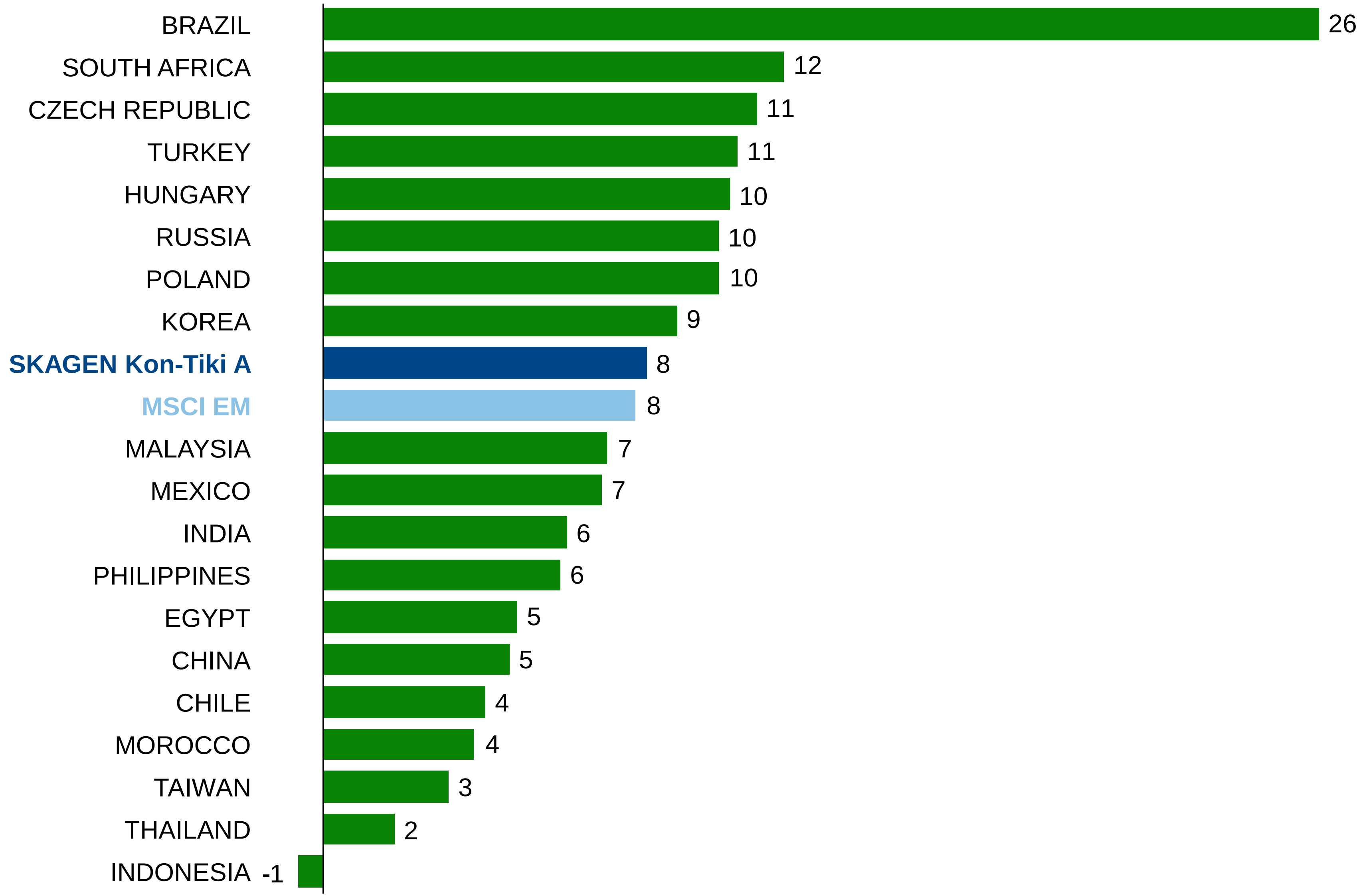
SKAGEN Kon-Tiki has beaten the index in 11/14 calendar years



Note: All figures in EUR, net of fees
** Inception date: 5 April 2002*

Emerging markets, March 2016 (in EUR)

Percent



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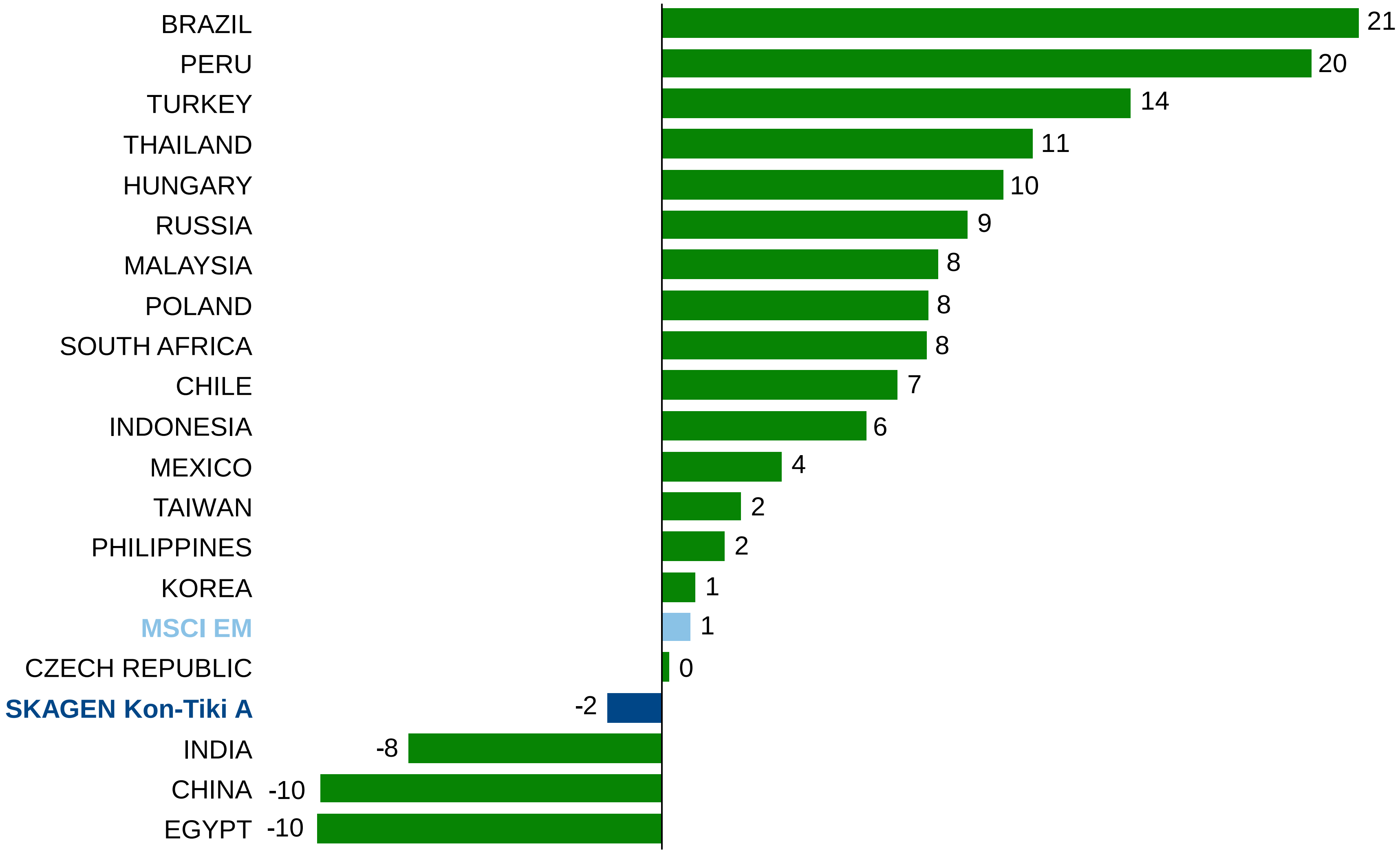
Emerging markets, YTD 2016 (in EUR)

Percent



Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics Co Ltd	370
State Bank of India	223
Banrisul	181
Cosan Ltd	166
Hyundai Motor Co	164
Haci Omer Sabanci Holding AS	164
UPL Ltd	117
Cia Brasileira de Distribuicao	107
Naspers Ltd	106
Bharti Airtel Ltd	96

Largest negative contributors

Company	NOK Millions
Mahindra & Mahindra Ltd	-84
Frontline Ltd	-42
Kiatnakin Bank PCL	-42
Lenovo Group Ltd	-36
LG Electronics Inc	-28
CNH Industrial NV	-13
China Shineway Pharmaceutical	-12
Diamond Bank PLC	-9
Dragon Capital - Vietnam Enterprise Investments Ltd	-7
Ghana Commercial Bank Ltd	-7

Value Creation MTD (NOK MM): 2471

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Haci Omer Sabanci Holding AS	199
Banrisul	157
Cosan Ltd	133
OCI Co Ltd	124
Cia Brasileira de Distribuicao	98
JSE Ltd	77
Moscow Exchange MICEX-RTS OAO	65
DRDGOLD Ltd	65
Indosat Tbk PT	63
LG Electronics Inc	63

Largest negative contributors

Company	NOK Millions
Frontline Ltd	-357
State Bank of India	-321
Great Wall Motor Co Ltd	-283
Mahindra & Mahindra Ltd	-228
Lenovo Group Ltd	-111
Investment AB Kinnevik	-109
Samsung Electronics Co Ltd	-106
Tech Mahindra Ltd	-92
SBI Holdings Inc	-89
Hyundai Motor Co	-81

Value Creation YTD (NOK MM): -1334

NB: Contribution to absolute return

Holdings increased and decreased, March 2016

Key buys during March

Toray Industries
We initiated a position in Toray Industries based on a combination of innovation driven growth, margin potential and attractive valuation.

Key sells during March

Archer (out)
We sold out as our investment thesis has not played out as expected, and we find better opportunities elsewhere.

Aveng (Out)
Investment thesis did not play out as foreseen, and we find better opportunities elsewhere.

Hyundai Motor
Trimming of the position.

Bharti Airtel
Trimming of the position.

Indosat
Reduced position as it approached our target price.

Most important changes Q1 2016

Holdings increased

Q1		
	Toray Industries Inc	(New)

Holdings reduced

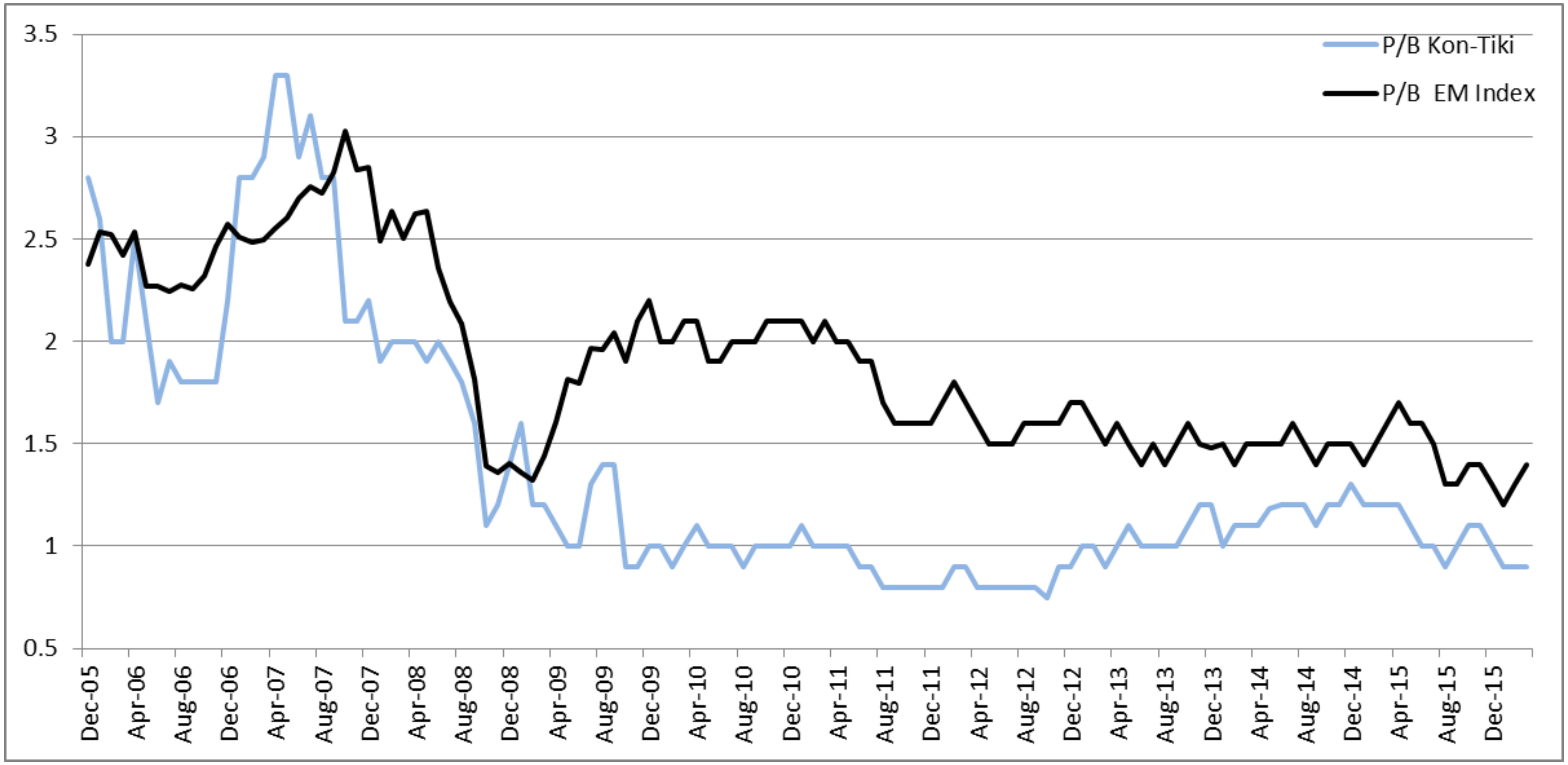
Q1		
	Bidvest Group Ltd	(Out)
	Pivovarna Lasko	(Out)
	Aveng Ltd	(Out)
	Archer Ltd	(Out)
	Hyundai Motor Co	
	Bharti Airtel Ltd	
	Samsung Electronics Co Ltd	
	Indosat Tbk PT	
	ABB Ltd	

Largest holdings SKAGEN Kon-Tiki, end of March 2016

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Samsung Electronics	8.3	1 107 000	8.6	7.9	0.9	1.9	1 600 000	45
Hyundai Motor	7.9	104 000	4.3	4.3	0.4	3.9	170 000	63
Sabanci Holding	4.9	9.7	8.9	6.7	0.9	1.5	14	44
Mahindra & Mahindra	4.9	1 211	16.1	12.7	2.6	1.2	2 000	65
Richter Gedeon	4.1	5 498	19.0	18.3	1.7	1.3	7 500	36
State Bank of India	4.1	194	10.8	5.6	0.8	2.3	265	36
Naspers	3.3	2 057	41.1	27.4	10.7	0.3	2 500	22
Bharti Airtel	3.2	351	21.9	11.7	2.2	0.7	400	14
ABB	3.0	158	16.1	13.2	2.8	4.0	200	26
X5 Retail Group	2.7	21.2	18.9	14.1	4.0	0.0	25	18
LG Electronics	2.2	32 550	47.3	8.1	0.5	1.4	40 000	23
Cosan Ltd.	2.0	4.9	8.1	8.7	0.4	0.0	10	102
Weighted top 12	**50.6**		**9.9**	**8.1**	**0.9**	**0.9**		**44**
Weighted top 35	**84.2**		**11.6**	**8.5**	**1.0**	**2.2**		**47**
Emerging market index			**13.2**	**11.9**	**1.4**	**2.9**		
Top 35 @ price target			**17.6**	**12.5**	**1.5**	**1.5**		

Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates.

P/BV for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 March, 2016

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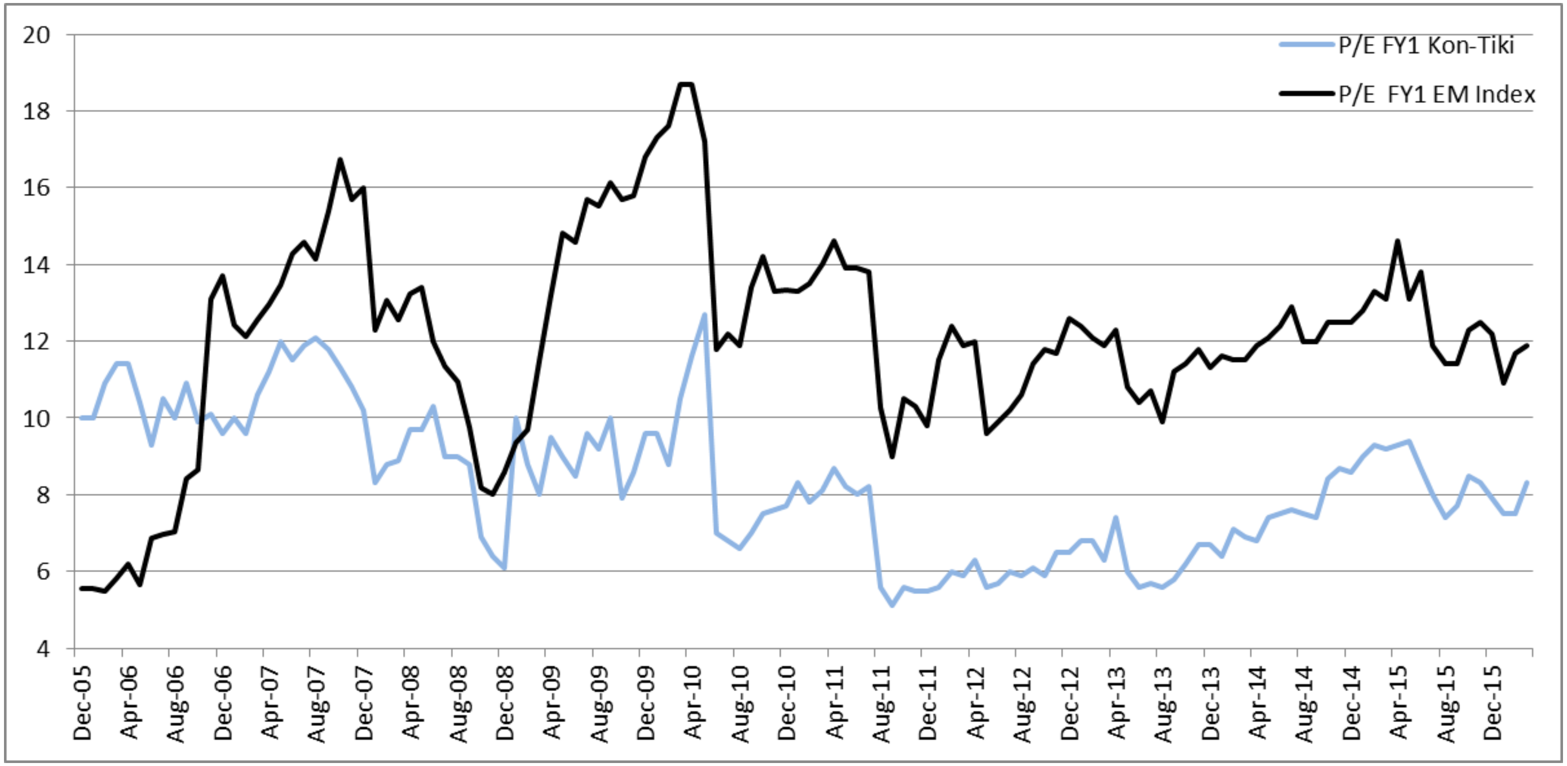
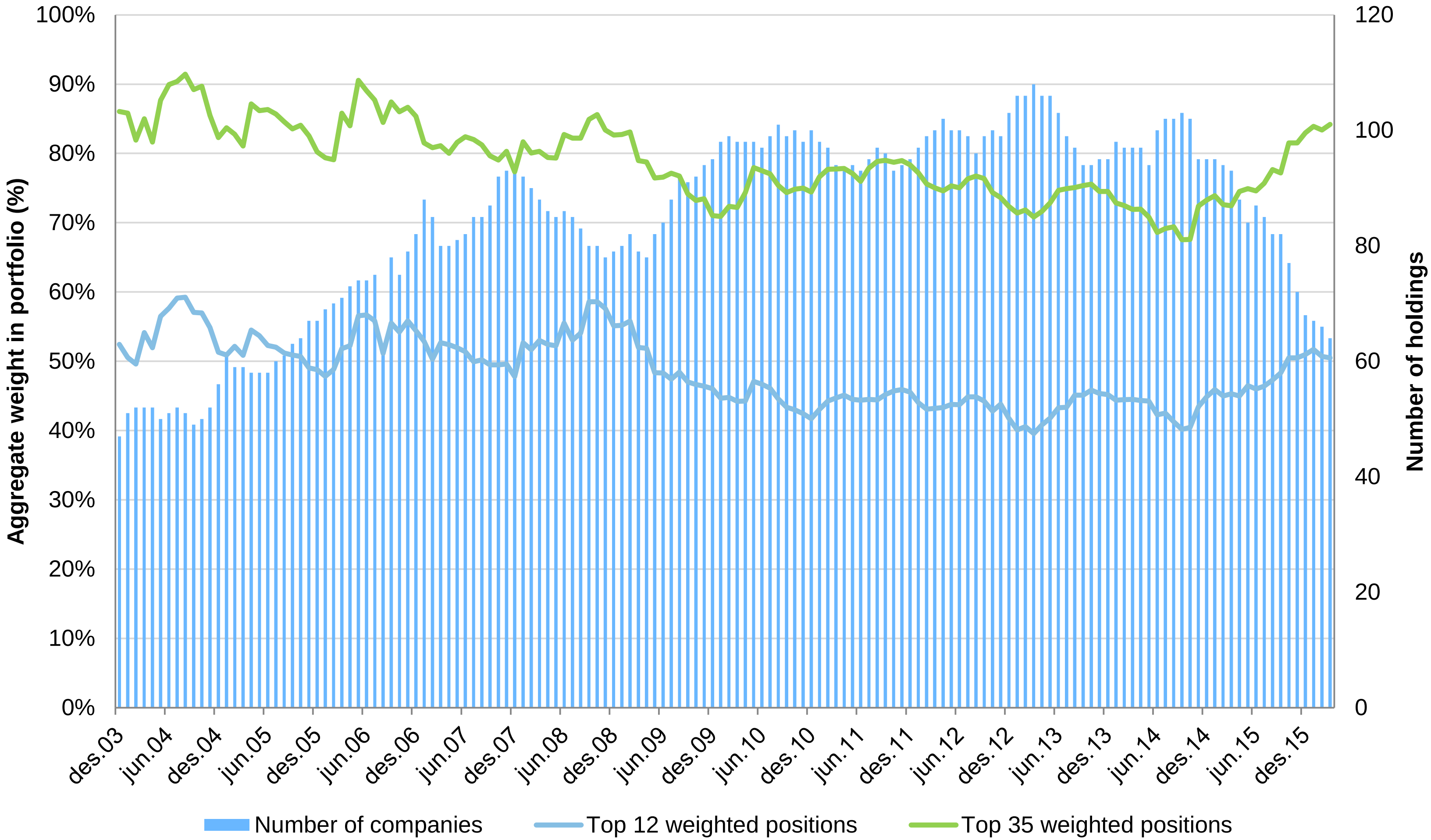
P/E SKAGEN Kon-Tiki versus emerging markets



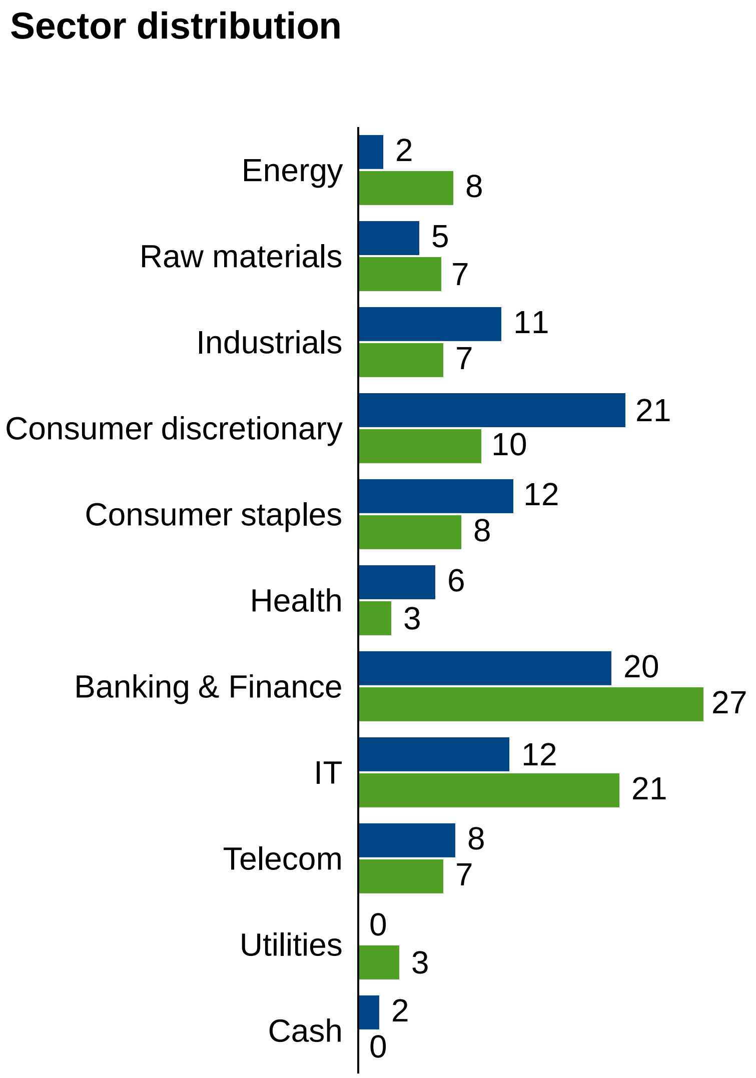
Top 12 positions, as of 31 March, 2016

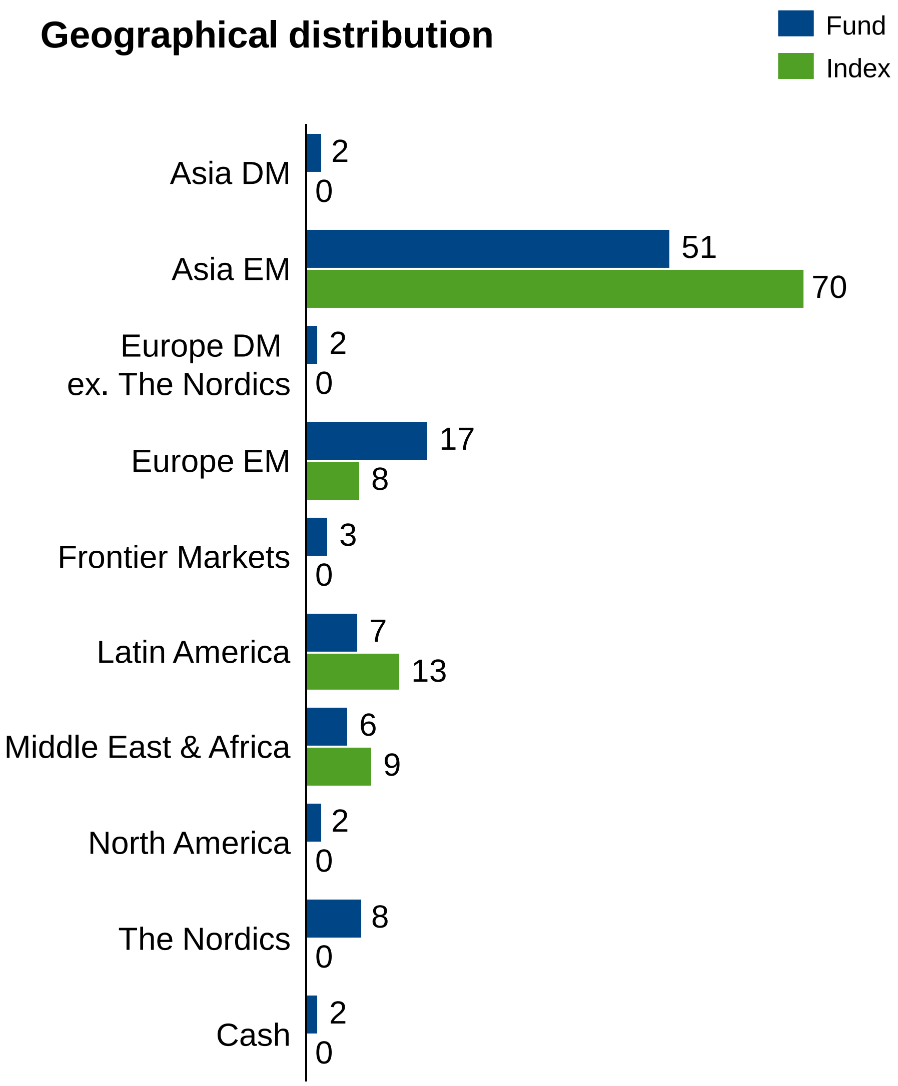
SKAGEN Kon-Tiki portfolio concentration



Source: SKAGEN AS as of 31 March 2016

SKAGEN Kon-Tiki sector and geographical distribution





Key earnings releases and corporate news, March 2016

Sabanci (4.9% weight):

Implications for Investment Case: Minor positive and supportive of investment case. Good improvement and strong guidance for Energy is important, as this asset has been a drag on capital returns in the past few years. Operational improvement and a more favourable regulatory environment is behind the more positive outlook, which is encouraging ahead of a possible IPO in 2H17. We met with the Chairman and CFO this week. They were surprisingly aware of and focused on current 31% discount to NAV, which is above the 3y average of 25% and well above long-term average. We share their view that the key catalyst for this is improved return on the Energy assets and better educating the investment community about the division, which accounts for 24% of equity. For reference, the other large conglomerate in Turkey, Koc Holding, trades at a 10% discount to NAV.

Event summary: 4Q5 EBITDA rose 14% YoY to TRY 2,162 (FY15 growth of 12%) with non-bank EBITDA growing 27% YoY to TRY 776m (FY15 growth of 30%) and bank +8% (flat YoY for FY15). A strong 4Q15 was driven by a 94% increase in contribution from Energy which reported an EBITDA of TRY 284m in 4Q15. FY16 looks promising as all generation assets will enter operations, with positive impact of efficiency improvements, tailwind from a better regulatory environment as well as a higher share of feed-in tariffs above spot prices. Thus, management guides for EBITDA from Energy +40-50% YoY for FY16. CAPEX is now coming to an end and the Energy business was FCF positive in 2015.

EBITDA for Cement of TRY 175m in 4Q15 rose 30% YoY (+12% YoY for FY15). We met with the CFO of one of its subsidiaries and our impression is that FY16 looks to be at least as good as FY15 (29% EBITDA margin and RoE +20%). The cement assets also provide strong dividend to Holding with a payout ratio of +80%.

Retail was the weak spot with EBITDA of TRY 10m for 4Q15 down 84% YoY (-36% on a comparable basis), due to integration and restructuring costs related to the acquired Kiler supermarkets. The 30% increase in minimum wages in Turkey from 1 January will create headwind in FY16, but management expects internal measures to impact positively from 2Q16.

41% owned Akbank delivered a strong 4Q15 with RoE of 14.8% (12.1% for FY15) and RoA of 1.6% (1.3% for FY15). Balance sheet is strong with capitalisation (adjusted Tier 1 of 14%) well above sector, NPL (2.2%) well below sector and cost efficiency (cost/income 39%) well above sector. For FY16, the bank guides for RoE of 14% and RoA of 1.5% with medium term RoE target of 14-16%.

Unpopular: No, not with 91% Buy and the rest Hold, but the investor community seems to have a more muted view, likely due to high perceived Turkey risk and lack of understanding of the regulatory changes for Energy which is very positive to return.

Under-researched: No, not with 23 analysts covering a USD 6.4bn market cap. company, but analysts tend to be less dynamic focusing mainly on a static sum-of-parts valuation, which in itself, however, provides support versus history today.

Undervalued: Yes, NAV discount of 31% is above 3y average of 25%. Importantly, key underlying assets are attractively valued. Akbank (42% of NAV) is valued at P/BV of 1.1 with RoE of 14%. We currently value the Energy business at P/BV of 1.2x (20% of NAV). With regulatory changes from 2016, outlook has improved and this might be conservative. Sabanci has a goal that all operations should generate an RoE of +15%. Today, most operations, except Energy and food retailing, are close to or above that level. Our current NAV estimate is TRY 14.5. Rolling that forward by 2y by simply adding return, it comes to TRY 18.7. Our 2y forward target price is TRY 13 which equals 0.7x forward NAV. We expect a slight narrowing of discount as we get closer to IPO of Energy assets, adding some further upside potential.

Key earnings releases and corporate news, March 2016 (cont.)

X5 Retail Group (2.7% weight):

Strong 4Q15 results, but management incentive plan raises questions

Implications for Investment Case: Current trading remains strong, with an acceleration to 28% topline growth in 1Q16 so far despite weakening inflation, with Pyaterochka up a strong 34%. There's an ongoing efficiency program and given their target of flat margins, savings will be invested in prices which should help them continue to keep best in class LFLs and improve market share. They still have more to do when it comes to improving supplier terms, rental costs, shrinkage improvement, logistic improvement and overheads. The announced management LTI programme was poor for sentiment and we will question the company as to why we had so little disclosure beforehand, and also why the former CEO Stephan DuCharme was paid a USD6.5m exit payment while he's still with the group (now as Chairman).
X5's outperformance versus its Russian peer group is due to 1) favourable geographical exposure and store formats (focus on large cities and small stores) 2) very strong space growth (27% versus 23% for Magnit in the quarter) and most importantly 3) operational improvements and customer value proposition improvements over the past few years through restructuring (more relevant assortment, smarter pricing, better shelf availability and revamped stores).

Event summary: X5 had already reported strong 4Q15 sales growth of 26% YoY with LFL of 10% (traffic +2.3%/basket +7.4%). They delivered a marginal increase in the EBITDA margin of 10bps YoY (pre the LTI charge) which shows strong execution in a sector where margins are in decline. EBITDA growth of 28% but flat after accrued LTI and exit payment of RUB 4bn was taken into account (a hefty 7% of FY15 adj EBITDA). This includes payments for the completion of the first stage of X5's LTI programme, based on targets related to revenue growth and market share without sacrificing EBITDA. This is a 2-stage programme lasting until 2019 (capped at 12% of EBITDA with previous incentives taken into account) and so there could be one further charges if they achieve their second-stage targets which are based on "market share outperformance within certain margin criteria". We need more clarity from the company here. Cashflow was stronger than expected, and net debt of RUB 135bn implies a slight increase to 2.45x net debt/EBITDA (from 2.3x in 2014). The next event will be a trading update on April 19, and with results to be released on April 28. But before that we have scheduled a meeting with the Chairman and CFO.
X5 opened more than 1500 new stores with space growth of almost 30% YoY for the full year. This is impressive, and a result of the successful decentralisation process which has simplified decision making and the store openings process and increased the speed of rollout. Space contribution was up 16.5% for the quarter. Pyaterochka (discounters) was again the key growth driver with 4Q growth of 33%. 30% of the store base has yet to transfer to the new concept which should continue to support trading.

Unpopular: Not anymore. 16 Buy and 2 Hold recommendations.

Under-researched: No.

Undervalued: Yes. X5, which trades at 16e EV/EBITDA of 7.2x ranks as one of the cheapest grocery retailers in the EM universe (median multiple of 10x). Price target of USD 25 (20% upside) implies a multiple contraction given the expected strong growth (approx. 20% p.a. sales growth and similar EPS growth as they have a target to keep margins flat and invest efficiency savings into pricing/competitiveness).

The largest companies in SKAGEN Kon-Tiki

Samsung Electronics is one of the world's largest producers of consumer electronics, with over 155,000 employees. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces appliances, cameras, printers, PCs and air-conditioning units.

Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 4.9m cars in 2014 and has a ca. 5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

Turkey's leading and financial conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family.

Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of UVs and tractors in India).

Hungarian pharmaceutical company established in 1901 with focus on CEE. Transitioning from generic-focused to more specialised through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Cariprazine). Significant upside potential from US marketing approval of Cariprazine and extended usage of Esmya is not reflected in the current valuation at 30-40% discount to peers.

The largest companies in SKAGEN Kon-Tiki (continued)

Largest bank in India with 17% market share (ca. 25% including 5 associate banks). Also presence in life insurance, asset management and investment banking. 15,000 branches, 32,000 ATMs, 130 million customers and over 220,000 employees. Largest Indian overseas bank with 190 offices in 34 countries.

South-African listed media and internet holding company incorporated in 1915. They have a strong Pay-TV business in South-Africa and Sub-Saharan African countries and a fast growing internet division focused on commerce, communities, content, communication and games. They hold a 34% stake in Chinese Tencent and 29% of Russian Mail.ru.

Bharti Airtel is India's largest private integrated telecom company, and it is a leading global player (#4) with operations in 20 countries across Asia and Africa. They had around 287m customers across their operations at the end of June 2014. They separated out towers into part-owned unit (passive infrastructure). Bharti family and SingTel own 30% each.

ABB is a leader in power and automation technologies that enable utility and industrial customers to improve performance while lowering environmental impact. The group operates in around 100 countries and employs 146,000 people. Approximately 50% of sales stem from emerging markets and this share is rapidly increasing.

X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarket chain under the Perekrestok brand, hypermarket chain under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment. They are also in the middle of an aggressive expansion and refurbishment period.

For more information please visit:

Our latest Market report

Information about SKAGEN Kon-Tiki A on our web pages

Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments.